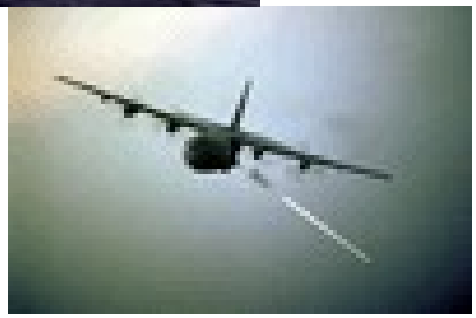
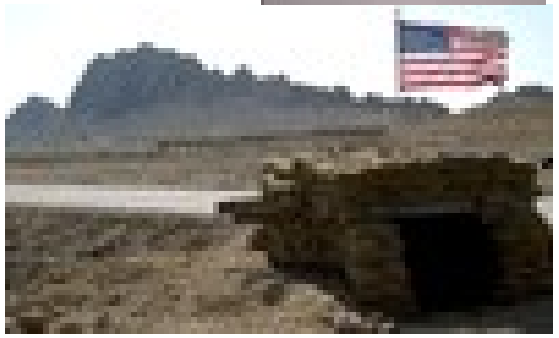
Navy Conference

Management Control Program





Peggy P. Johnson
Department of Defense
Management Control Program Coordinator,
Office of the Deputy Chief Financial Officer

Agenda

- *Federal Managers' Financial Integrity Act Requirement*
- *DoD Directives for the Management Control Program*
- *How the Navy Fits into This Requirement*
- *What are Management Controls*
  - *Examples*
  - *What Can Happen If Ineffective*
  - *How to identify them?*
- *Ways to Assess Management Controls?*
- *Report or Not?*
- *Should be First Priority to Resolve*
- *What's New in the Management Control Program?*
  - *Now Part of Performance and Accountability Report*
  - *Statement of Assurance Scorecard*
- *Summary*

Management Control References

- ***DoD Website: http://www.dod.mil/comptroller/fmfia/index.html#latest***
- ***Federal Managers Financial Integrity Act of 1982 (PL 97-255)***
- ***OMB Circular A-123, Management Accountability and Control, 21 June 1995***
- ***DOD Directive 5010.38, Management Control Program, 26 August 1996***
- ***DOD Instruction 5010.40, Management Control Program Procedures, 28 August 1999***
- ***GAO Standards for Internal Control in the Federal Government, November 1999***

Federal Managers' Financial Integrity Act of 1982 (In Brief)

- ***For all major programs (<u>not</u> just financial), Agencies Heads must:***
  - ✓***Establish effective management controls***
  - ✓***Annually evaluate management controls***
  - ✓***Annually report reasonable assurance***
  - ✓***Continually track & promptly correct material weaknesses in management controls***
  - ✓***Report on financial system noncompliance***

Department of Defense (DoD) Directives for Management Control Program

- *Involves management at all levels*
- *Assigns to managers of each assessable unit responsibility and accountability for execution and evaluation of management controls*
- *Component heads responsible to report assurance*
- *Undersecretary of Defense (Comptroller) will prepare Secretary of Defense Statement of Assurance annually*

How Does Navy Fit Into This

<u>Annually</u> the Secretary of the Navy:

- *Conducts assessment of effectiveness of management controls*
- *Submits to the Secretary of Defense (SECDEF) a Statement of Assurance:*
  - » *Providing reasonable assurance in effectiveness of management controls*
    - *Unqualified*
    - *Qualified*
    - *Disclaimer*
  - » *If qualified, identifies material weaknesses that warrant reporting to SECDEF*

Department of Navy
FY 2003 Statement of Assurance

In FY 2003, the Head of the Navy submitted a qualified statement, reporting:

- *Zero new material weaknesses*
- *Status on nine previously reported weaknesses*
- *Correction of five previously reported weaknesses*

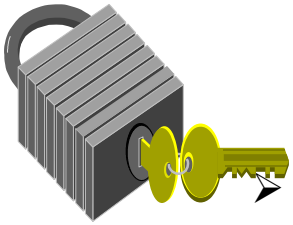
What Is a Management Control?

Anything that helps ensure that what should happen does happen such as:

- ***Plan of the organization***
- ***Procedures to ensure goals are m***
- ***Processes for controlling operati***
- ***Devices that provide timely dete***
  unauthorized:
  - ✓***Acquisition***
  - ✓***Use***
  - ✓***Disposition of asset***

Examples of Management Controls

You'll find management controls everywhere!



- ***A lock on a door***
- ***Authorization signature***
- ***Computer password***
- ***Signed and dated receipt***
- ***Time card***

Management Control Program --- Why Important to Us?

Other than legal and regulatory requirements, why is the Management Control Program important to your organization?

What Can Happen When Controls Don't Work

e business of Defending our Nation has dire conseque
hen we can't or don't reduce the risk of operation failu

diers, Airmen, Sailors, Marines, Contractors, and Civil
rely on us to make processes work.

Remember the Space Shuttle Columbia?

Remember the Corporate Scandals?

Recent events:

- ***Major accounting scandals (ENRON, WORLDCOM)***
- ***Loss of trust in public companies & stock market***

How to Assess the Effectiveness of Management Controls?

- *Basis of agency head's annual assessment:*
  - *Continuous monitoring*
  - *Other periodic evaluations*

Ways to Assess the Effectiveness of Management Controls?

- *Agencies should not duplicate effort, therefore…..*
- *Agencies can use, <u>if evaluate the management controls</u>:*
  - *Management's knowledge from daily operations*
  - *Management reviews or program evaluations*
  - *Inspector General & General Accounting Office reports*
  - *Other audits, inspections, reviews, investigations*
  - *Chief Financial Officer Act audits*
  - *Systems reviews under OMB A-127 requirements*
  - *Computer Security Act Reviews under OMB A-130*
  - *Annual performance plans*
  - *Government Performance and Results Act reports*
  - *Congressional committee reports*

Management Control Evaluations

A management control evaluation:

- ***<u>TESTS</u> the Controls***
  - ***Sampling***
  - ***File Review***
  - ***Observation***
  - ***Simulation***

- ***<u>DOCUMENTS</u> results***
  - ***Test used***
  - ***Weaknesses found***
  - ***Corrective actions taken or to be taken***

Managers decide <u>how</u> to evaluate

Report or Not?

- *Identified through sources of information*
- *Reported if agency head DECIDES its material based on level of risk*
  - ✓ *Matter of judgment*
  - ✓ *Two prevailing reasons to report:*
    - *Problem that warrants the attention of higher level*
    - *Need assistance in resolving*
  - ✓ *Should <u>seriously consider</u> views of Inspector General*
  - ✓ *Reporting reflects positively on the agency's commitment to stewardship of assets*
  - ✓ *Failing to report a known deficiency would reflect adversely on the agency – particularly external stakeholders (GAO, OMB, and Congress)*

Material Weaknesses Should Become First Priority to Resolve

- *Resolving deficiencies must be a priority*
- *Extent to which you track a weakness should be commensurate with severity of the deficiency*
  - ✓ *Material Weaknesses reported in the annual statement of assurance should be completed <u>on time</u>*
  - ✓ *Resolving material weaknesses is a top priority for DoD*

On time resolution demonstrates to OMB, Congress, and the President, DoD's commitment to stewardship!!

What’s New?

DoD Statement of Assurance is Now Part of Performance and Accountability Report

- ***Annual report submitted to the President, Congress, and OMB by federal agencies***

- ***The PAR contains:***
  - *DoD's annual statement of assurance*
  - *DoD's annual performance report*
  - *DoD's annual audited financial statements*
  - *An overview of the Defense Strategy and Policy Objectives*
  - *The status of DoD's Compliance with certain Laws and Regulations*
  - *A summary of the Department's progress on achieving the President's Management Agenda*
  - *IG's summary of management challenges*

- ***FY 2003 PAR published on December 23, 2003***

FY 2003 DoD Statement of Assurance

The Message from the Deputy Secretary of Defense says:

*"…**The Department is committed to effective internal controls, full compliance with established guidelines and standards, and proper stewardship of the resources entrusted to it. During fiscal year 2003 we corrected 25 management control weaknesses, and except for the unresolved weaknesses noted in the Management Discussion and Analysis section (Part 1) of this report, the Department has reasonable assurance that its management controls are effective. The Department will continue its efforts to resolve the remaining issues and I am confident that the Department will continue to fulfill its mission responsibilities…."***

Weaknesses Reported in the FY 2003 PAR

70 Weaknesses Beginning FY 2003

+10 New Weaknesses reported

- 25 Corrected

- 15 Consolidated

40 Weaknesses Ending FY 2003

Reported Material & Systemic Weaknesses

- *(31)* ***Material Weakness reported FY 2003–***
  - *Are weaknesses in management controls*
  - *Usually affect a single DoD Component*

- *(9)* ***Systemic Weaknesses reported FY 2003–***
  - *Are weaknesses in management controls*
  - *Across organizational and program lines*
  - *Usually affect multiple DoD Components*

Systemic Weaknesses Reported in FY 2003

FY 2003, DoD reported nine systemic weaknesses in PAR:

- ✓ *DoD Financial Management Systems and Processes*
- ✓ *Management of Information Technology and Assurance*
- ✓ *Environmental Liabilities*
- ✓ *Personnel Security Investigations Program*
- ✓ *Real Property Infrastructure*
- ✓ *Contracting or Services*
- ✓ *Government Card Program Management*
- ✓ *Valuation of Plant, Property & Equipment on Financial Reports*
- ✓ *Valuation of Inventory on Financial Reports*

Statement of Assurance Scorecard Why?

- *Achieve consistent superior performance Defense-wide*
- *Indication of what's important to management*
- *How well each component is doing*
- *A benchmark with other components*
- *How the Department is doing overall*
- *Recognition of top achievers -- those hitting the mark*

If you don't know where the mark is, how will you ever hit it?

Score Categories and Why Important

~ ***Timely & Format*** ~

- *Affect the quality and accuracy of the DoD's statement*

~ ***Program Execution & Training*** ~

- *Indicates the Component's ability to properly assess and report and improve in its assessment and reporting*

Score Categories and Why Important (cont'd)

~ ***Material Weakness Reporting Activity*** ~

- *Conscientious reporting of material weaknesses helps DoD accurately assess the effectiveness of weaknesses throughout the Department*

- *Rapidly correcting weaknesses helps DoD demonstrate to OMB and Congress our commitment to stewardship of government assets*

Components Receiving Highest Scores

First Highest Score

Department of Air Force

National Reconnaissance Office

Second Highest Score

Defense Logistics Agency

Third Highest Score

Defense Contract Management Agency
Defense Finance and Accounting Service
Defense Intelligence Agency
Department of Army
Department of Navy
National Geo-Spatial Intelligence Agency
U. S. Strategic Command
U. S. Pacific Command

Scorecard Results

Agency	Timely	Format	Program Execution	Training	Material Weaknesses Reporting Activity	Total Score
Office of Secretary of Defense	RED	AMBER	BLUE	BLUE	BLUE	GREEN
Missile Defense Agency	RED	GREEN	GREEN	GREEN	AMBER	AMBER
Defense Advanced Research Projects Agency	GREEN	GREEN	GREEN	GREEN	AMBER	GREEN
Defense Commissary Agency	RED	AMBER	GREEN	GREEN	AMBER	AMBER
Defense Contract Audit Agency	GREEN	GREEN	GREEN	GREEN	AMBER	GREEN
Defense Contract Management Agency	GREEN	AMBER	GREEN	GREEN	BLUE	GREEN
Defense Finance and						

Scorecard Results (cont'd)

Agency	Timely	Format	Program Execution	Training	Material Weakness Reporting Activity	Total Score
Defense Information Systems Agency	GREEN	GREEN	AMBER	GREEN	GREEN	GREEN
Defense Intelligence Agency	GREEN	GREEN	GREEN	GREEN	GREEN	GREEN
Defense Logistics Agency	GREEN	AMBER	GREEN	BLUE	BLUE	GREEN
Defense Security Cooperation Agency	GREEN	GREEN	AMBER	RED	AMBER	AMBER
Defense Security Service	RED	GREEN	GREEN	GREEN	GREEN	AMBER
Defense Threat Reduction Agency	RED	GREEN	GREEN	AMBER	BLUE	AMBER
Department of Air Force	RED	BLUE	GREEN	BLUE	WHITE	GREEN

Scorecard Results (cont'd)

Agency	Timely	Format	Program Execution	Training	Material Weakness Reporting Activity	Total Score
Department of Navy	RED	BLUE	GREEN	BLUE	BLUE	GREEN
Joint Staff	RED	GREEN	GREEN	GREEN	AMBER	AMBER
National Geo-Spatial Intelligence Agency	GREEN	AMBER	GREEN	BLUE	GREEN	GREEN
National Reconnaissance Office	GREEN	GREEN	GREEN	GREEN	PURPLE	GREEN
National Security Agency	RED	GREEN	GREEN	GREEN	GREEN	AMBER
Office of the Secretary of Defense, Inspector General	GREEN	GREEN	GREEN	RED	GREEN	AMBER
Uniformed Service University of the	GREEN	GREEN	GREEN	GREEN	AMBER	GREEN

Scorecard Results (cont'd)

Agency	Timely	Format	Program Execution	Training	Material Weaknesses Reporting Activity	Total Score
United States Central Command	RED	GREEN	GREEN	RED	AMBER	AMBER
United States European Command	GREEN	GREEN	AMBER	RED	RED	AMBER
United States Joint Forces Command	RED	GREEN	GREEN	AMBER	AMBER	AMBER
United States Northern Command	GREEN	GREEN	RED	AMBER	RED	AMBER
United States Pacific Command	RED	AMBER	GREEN	AMBER	GREEN	AMBER
United States						

Scorecard Results (cont'd)

Agency	Timely	Format	Program Execution	Training	Material Weakness Reporting Activity	Total Score
United States Special Operations Command	RED	GREEN	AMBER	AMBER	RED	RED
United States Strategic Command	GREEN	GREEN	GREEN	BLUE	AMBER	GREEN
United States Transportation Command	RED	GREEN	GREEN	AMBER	GREEN	AMBER
Department-wide MCP Execution Total Average	RED	GREEN	GREEN	GREEN	GREEN	GREEN

Summary

- *Management Control Program (MCP) is DoD's mandatory process that complies with the Federal Managers' Financial Integrity Act*
- *MCP makes sense because it provides:*
  - *A systematic approach to help prevent fraud, waste, and abuse*
  - *A self-reporting process that helps the Department recognize and promptly resolve problems for:*
    - » *processes that work*
    - » *information that is reliable*

BACKUP

Statement of Assurance
~ Timely ~
Possible Scores

Statements are not logged in as received until signed by Comp
Deputy and correctly addressed to Secretary of De

Green

+ 2 pts

- Received on due date of October 1, 2003 or within 2 calendar days

Amber

+1 pt

- Received over 2 days past due date, but no more than 5 calendar days after due date

Red

-1 pt

- Received over 5 calendar days past due date

Pts = points received or lost

Statement of Assurance
~ Format ~
Possible Scores

Blue + 3 pts	• Best in Category -- Exceptional in all aspects
Green + 2 pts	• No revisions required and not necessary to ask for explanation from Component
Amber +1 pt	• Returned for correction or requested Component to clarify an aspect of the statement intent • Extensive changes required
Red -1 pt	OR • Incorrectly stated the opinion, i.e. provided a unqualified statement that should have been qualified

Pts = points received or lost

Statement of Assurance
~ Program Execution ~
Possible Scores

Blue + 3 pts	• Best in Category – Component or Components report at least one innovative measure to enhance agency-wide program execution
Green + 2 pts	• Statement clearly indicates that MCP is executed at all levels
Amber +1 pt	• Statement has some evidence of program execution but limited
Red -1 pt	• No evidence of program execution in statement

Pts = points received or lost

Statement of Assurance
~ Training ~
Possible Scores

Blue + 3 pts	• Best in Category -- Component or Components report at least one innovative measure taken to enhance training MCP Component wide
Green + 2 pts	• Evidence in write-up of MCP training agency wide
Amber +1 pt	• Statement has some evidence of training but limited
Red -1 pt	• No evidence of training in statement

Pts = points received or lost

Statement of Assurance ~ Material Weakness Reporting Activity ~ Possible Scores

White

+5 pts

- 85% or more of weaknesses corrected on time in FY 2003 as targeted in FY 2002 Statement of Assurance
- (To receive, there must be at least 2 weaknesses corrected.)

Purple

+4 pts

- 85 % or more of weaknesses corrected on time. (There is no qualification on the number that must be corrected.)

OR

- 50% or more are corrected on time and more than one weakness corrected in advance of target

Blue

+3 pts

- 50% or more of weaknesses are corrected on time

OR

- At least one weakness corrected in advance of target

Pts = points received or lost

Statement of Assurance ~ Material Weakness Reporting Activity ~ Possible Scores (cont)

Green

+ 2 pts

- At least one new weakness reported in last three years

BUT

- Less than 50% of weaknesses were corrected on time or none due for correction in FY 2003

Amber

+1 pt

- ~~At least one weakness was corrected in last three years~~

OR

- Statement of assurance sufficiently addresses actions taken in considering reporting weaknesses

- No weaknesses reported as new in past three years

AND

- No weaknesses corrected in past three fiscal years

AND

Red

-1 pt

- Insufficient evidence of actions taken in considering reporting weaknesses

Pts = points received or lost

Statement of Assurance
~ Material Weakness Reporting Activity ~
Possible Scores for FY 2004

White

+5 pts

- 85% or more of weaknesses corrected on time in FY 2004 as targeted in FY 2003 Statement of Assurance. There must be at least 2 weaknesses corrected.)

OR

- 60% or more are corrected on time and at least five weaknesses corrected in advance of target

Purple

+4 pts

- 85 % or more of weaknesses corrected on time. (There is no qualification on the number that must be corrected.)

OR

- 70% or more are corrected on time and more than one weakness corrected in advance of target

Blue

+3 pts

- 70% or more of weaknesses are corrected on time

OR

- 50 % or more are corrected on time and at least one weakness corrected in advance of target

Pts = points received or lost

Statement of Assurance
~ Material Weakness Reporting Activity ~
Possible Scores for FY 2004

Green + 2 pts	• 50 % or more are corrected on time OR • If none due for correction in FY 2004, at least one new weakness reported or one weakness reported as corrected in last three years
Amber +1 pt	• Less than 50% corrected on time OR • If none due for correction and no new or old weaknesses in last three years, the statement of assurance sufficiently addresses actions taken in considering reporting weaknesses
Red -1 pt	• No weaknesses reported as new in past three years AND • No weaknesses corrected in past three fiscal years AND • Insufficient evidence of actions taken to report weaknesses

Pts = points received or lost